

ORIGINAL

Decision No. 49458

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)	
General Telephone Company Of Cali-	:	
formia for Authority to Issue and)	Application
Sell 150,000 Shares of its Cumulative	:	No. 34905
Preferred Stock, \$20 Par Value, 5%)	
1947 Series, without competitive	:	
bidding.)	
-----	:	

Harlan W. Holmwood, R. K. Chase and James M. Irvine, Jr., for Applicant.

O P I N I O N

General Telephone Company Of California has filed this application for authorization to issue and sell 150,000 shares (\$3,000,000 par value) of its Cumulative Preferred Stock, \$20 Par Value, 5% 1947 Series.

The application was filed with the Commission on November 25, 1953, and came up for public hearing before Commissioner Mitchell and Examiner Coleman in San Francisco on December 14, 1953, at which time the matter was taken under submission.

The purpose of the proposed financing is to provide applicant with funds to pay for the acquisition of property, for the construction, completion, extension and/or improvement of facilities and/or for the improvement and maintenance of service, for the discharge of indebtedness to banks which may have been incurred at the time of the sale of said shares of stock, and/or for the reimbursement of the treasury. Applicant reports that during 1954 it will be called upon to expend substantial sums for additions to its plant and

in Exhibit B it sets forth the amounts of its estimated expenditures and the sources of funds as follows:

Additions to plant -		
Buildings	\$ 3,514,800	
Central office equipment	10,340,700	
Station equipment	8,990,800	
Outside plant	10,057,500	
Franchises, right of way, land and general equip- ment	1,251,900	
Work in progress	<u>5,986,100</u>	
Total		<u>\$40,141,800</u>
Sources of funds -		
From operations	\$ 8,249,781	
Decrease in working capital	3,183,969	
Salvage recoveries, dona- tions, etc.	4,901,000	
Issue of securities -		
Common stock	12,000,000	
Preferred stock	3,000,000	
Bonds	9,000,000	
Less-expense of issue	<u>(192,950)</u>	
Total		<u>\$40,141,800</u>

It has been applicant's practice to issue bonds and shares of both preferred and common stock to finance its capital costs. At the close of October, 1953, it had outstanding \$59,618,000 in principal amount of first mortgage bonds of seven series, bearing interest at rates ranging from 2-7/8% to 3-3/4%, \$30,360,720 of preferred stock of two series, namely, the 4-1/2% and the 5% 1947 series, and \$39,660,775 of common stock. Its capital ratios as of October 31, 1953, and as adjusted to give effect to the proposed preferred stock offering and to the issue of certain shares of common stock heretofore authorized, are as follows:

	<u>Oct. 31, 1953</u>	<u>Pro Forma</u>
Bonds	44.27%	42.36%
Preferred stock	22.55	23.70
Common stock equity	<u>33.18</u>	<u>33.94</u>
Totals	<u>100.00%</u>	<u>100.00%</u>

The issue of the preferred shares will constitute the first step in applicant's 1954 security offerings. It is noted from the preceding statement of sources of funds that applicant is contemplating selling \$9,000,000 of bonds in 1954 and \$12,000,000 of common stock.

Subject to receiving authorization from the Commission, applicant plans to dispose of its shares of preferred stock by means of a negotiated sale and accordingly it requests the Commission to exempt the offering from its competitive bidding rule. Testimony offered in support of this request shows that in November, 1947, applicant solicited bids for the sale of 150,000 shares of its 5% preferred stock, that no bids were received and that later in 1947 and thereafter in each following year applicant was successful in disposing of preferred stock offerings under negotiated arrangements. It appears that applicant has sold its preferred shares, at prices substantially the same as prevailing market prices, under and pursuant to the terms of underwriting agreements granting underwriters the option to purchase shares from time to time within specified periods for resale to the public.

Applicant asserts that as a result of the option arrangements for selling its shares it has obtained better prices than it would have obtained under an outright sale, either competitive or negotiated, and that its sales have been spread over a longer time, thus eliminating to some extent the accumulation of idle funds, and that the issues have been placed largely in applicant's service areas and with individuals rather than with institutions. It appears in general that the same underwriters have handled the several transactions in the past and that it is contemplated they will do so in the present financing and under similar terms.

From a review of this matter it clearly appears that

applicant has been able to finance itself under satisfactory terms in the past, and with no adverse effect on the public, and accordingly we see no reason for withholding authorization from it to continue with its financing at this time under similar arrangements. It appears that there is now an available market for applicant's shares of preferred stock and in our opinion applicant should avail itself of the present opportunity to sell its shares.

Applicant is not in a position at this time to indicate the price at which it will sell its shares and accordingly it now seeks only a preliminary order. At a later date it will file a supplemental application setting forth the agreed price and the terms of the sale.

ORDER

A public hearing having been held on the above entitled matter, and the Commission having considered the evidence and being of the opinion that the application should be granted, as herein provided, that the money, property or labor to be procured or paid for by the issue of the stock herein authorized is reasonably required by applicant for the purposes specified herein, and that such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income; therefore,

IT IS HEREBY ORDERED as follows:

1. The issue and sale by General Telephone Company Of California of 150,000 shares of Cumulative Preferred Stock, \$20 Par Value, 5% 1947 Series, hereby is exempted from the Commission's competitive bidding rule set forth in Decision No. 38614, dated January 15, 1946, provided applicant receives for said shares a price satisfactory to the Commission.

2. General Telephone Company Of California, after the effective date hereof and on or before June 30, 1954, may issue and sell said 150,000 shares at a price to be fixed in a supplemental order.

3. General Telephone Company Of California shall use the proceeds to be received from the issue and sale of said shares for the purposes set forth in this application.

4. The authority herein granted to issue and sell shares of preferred stock will become effective when the Commission by supplemental order has fixed the price at which they may be sold. In other respects, the authority herein granted is effective upon the date hereof.

5. General Telephone Company Of California shall file with the Commission, as soon as available, three copies of its prospectus and a report showing the names of those to whom said shares were sold, the number of shares sold to each and the consideration received.

Dated at San Francisco, California, this 21st day of December, 1953.

A. F. [Signature]
President

[Signature]

[Signature]

[Signature]

[Signature]
Commissioner